

**STATE OF WASHINGTON  
OFFICE OF THE INSURANCE  
COMMISSIONER**



**FINANCIAL EXAMINATION**

**of**

**Mason General Hospital Foundation  
Shelton, Washington**

**AS OF DECEMBER 31, 2003**


**Order No. G05-03  
Exhibit A**

CHIEF EXAMINER'S AFFIDAVIT

I hereby certify I have read the attached Report of the Financial Examination of Mason General Hospital of Shelton, Washington. This report shows the financial condition and related corporate matters as of December 31, 2003.



Patrick H. McNaughton  
Chief Examiner

  
Date

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**SALUTATION**

Seattle, Washington  
August 22, 2005

The Honorable Mike Kreidler, Commissioner  
Washington State Office of the Insurance Commissioner (OIC)  
Insurance Building – Capital Campus  
302 14<sup>th</sup> Ave. SW  
Olympia, WA 98504

Dear Commissioner Kreidler:

In accordance with your instructions, and in compliance with the statutory requirements of Chapter 48.38 RCW, Charitable Gift Annuity Business, an examination was made of the corporate affairs and financial records of

**Mason General Hospital Foundation**

of

Shelton, Washington

hereinafter referred to as “MGHF” at the location of its home office, 901 Mt. View Drive, Bldg 1, Shelton, WA 98029.

This report of examination is respectfully submitted showing the condition of MGHF as of December 31, 2003.

## **SCOPE OF THE EXAMINATION**

This examination covers the period January 1, 1999 through December 31, 2003. The examination was conducted in accordance with statutory requirements contained in the Revised Code of Washington (RCW) and the guidelines recommended by the National Association of Insurance Commissioners (NAIC) Financial Condition Examiners Handbook. We focused our review and testing on MGHF's management, operations, and reporting of the charitable gift annuity business as considered necessary to ascertain the financial condition of the organization and conformity with the related laws. These matters are discussed in this report. The examination was conducted at the Shelton office of MGHF by examiners from the state of Washington.

MGHF's records along with various aspects of the organization's operating procedures and financial reports were reviewed and tested during the course of this examination and are commented upon in the following sections of this report. In addition, the organization's certified public accountant's (CPA's) reports were reviewed and utilized, where possible, to facilitate efficiency in the examination.

## **INSTRUCTIONS**

The examiners reviewed MGHF's Annual Reports as part of the statutory examination. This review was performed to determine if the organization completed the Annual Reports in accordance with the Annual Report Instructions published by the OIC and to verify that the organization's accounts and records were prepared and maintained in accordance with Chapter 48.38 RCW.

The following summarizes the exceptions noted while performing this review.

### **1. Annual Report – Total of Net Assets**

The total of net assets shown in the December 31, 2003 Annual Report, amounting to \$393,614, was inaccurate. Reported amounts for unrestricted, temporarily restricted and permanently restricted net assets did not agree with MGHF's accounting records. An examination adjustment, decreasing the reported net assets to \$375,575, was made to correct the Annual Report. (See FINANCIAL STATEMENTS)

RCW 48.38.010 states that, "The commissioner may grant a certificate of exemption to any insurer or educational, religious, charitable, or scientific institution conducting a charitable gift annuity business: (10) Which: (a) Files with the insurance commissioner on or before March 1 of each year a copy of its annual statement prepared pursuant to the laws of its state of domicile, as well as such other financial material as may be requested, . . ."

**MGHF is instructed, pursuant to Chapter 48.38 RCW, to develop a system for accounting and reporting of its charitable gift annuity business to ensure its**

**compliance with the principles or practices prescribed or permitted by Chapter 48.38 RCW. The system should include procedures for review, by staff other than the report preparer, to ensure the completeness and accuracy of the Annual Report.**

## **2. Annual Report - Minimum Unrestricted Net Assets**

MGHF's adjusted Annual Report and accounting records showed an unrestricted net asset balance of \$324,620 as of December 31, 2003 which was below the minimum unrestricted net assets amount. The 2002, 2001, 2000 and 1999 balance sheets reported unrestricted net assets balance below \$500,000 as well. MGHF, therefore, did not comply with RCW 48.38.010(6) because it did not maintain the required \$500,000 minimum unrestricted net assets during the five year period under examination. (See SUBSEQUENT EVENTS)

RCW 48.38.010 states that, "The commissioner may grant a certificate of exemption to any insurer, or educational, religious, charitable, or scientific institution conducting a charitable gift annuity business: (6) which has and maintains minimum unrestricted net assets of five hundred thousand dollars."

**MGHF is instructed to maintain, at all times, the required minimum unrestricted net assets to ensure compliance with RCW 48.38.010(6).**

## **3. Annuity Agreement**

MGHF was not able to produce the only in-force joint annuity contract for review. The organization's Director of Development indicated that the annuitants' personal accountant had the contract and MGHF did not maintain a copy. Because the contract was not available for examination, the contents of the contract could not be verified. MGHF was not in compliance with RCW 48.03.030(1) and RCW 48.38.010(7)(d).

RCW 48.03.030(1) states that, "Every person being examined, its officers, employees, and representatives, shall produce and make freely accessible to the commissioner the accounts, records, documents, and files in his possession or control relating to the subject of the examination and shall otherwise facilitate the examination."

RCW 48.38.010 states that, "The commissioner may grant a certificate of exemption to any insurer or educational, religious, charitable, or scientific institution conducting a charitable gift annuity business: (7) Which files with the insurance commissioner its application for a certificate of exemption showing: (d) Such other documents, stipulations, or information as the insurance commissioner may reasonably require to evidence compliance with the provisions of this chapter."

**MGHF is instructed to have in its possession all original annuity contracts issued to annuitants to evidence compliance with RCW 48.03.030(1) and RCW 48.38.010(7)(d).**

## COMPANY PROFILE

**History:** MGHF is a nonprofit organization incorporated in the state of Washington on August 16, 1991 under the name, The Peninsula Health Care Foundation. On September 16, 1994, a Certificate of Amendment was issued changing the name to Mason General Hospital Foundation.

**Territory and Plan of Operation:** MGHF is a volunteer fundraising organization which raises, receives, manages and distributes funds in support of the programs and services of Mason General Hospital and North Mason Medical Clinic in Belfair. It generates support through annual campaigns, special campaigns, grants, special events, Treasures Thrift Store, and Karen Hilburn Cancer Fund.

MGHF was granted a Certificate of Exemption Number 74 to conduct a Charitable Gift Annuity business in the state of Washington by OIC on June 27, 1995. There was only one in-force joint annuity contract as of December 31, 2003.

**Total Net Assets:** MGHF's adjusted total of net assets, as determined by this examination, was \$375,575. This amount included an unrestricted net asset of \$324,620 which was below the required amount of \$500,000. The minimum unrestricted net asset requirement as of December 31, 2003 was not satisfied pursuant to RCW 48.38.010(6). (See INSTRUCTIONS No. 1 and No. 2)

**Growth of Company:** The growth of MGHF for the past five years is reflected in the following exhibits. All information was compiled from MGHF's financial statements as of calendar years ending December 31:

### Schedule 1

<u>Year</u>	<u>Assets</u>	<u>Liabilities</u>	<u>Total Net Assets</u>	<u>Total Net Assets Allocated Into:</u>		
<u>End</u>				<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>
2003	\$737,979	\$362,404	\$375,575	\$324,620	\$50,955	\$0
2002	746,295	339,076	407,219	82,168	325,051	0
2001	696,764	352,396	344,368	(37,338)	381,706	0
2000	1,130,898	375,495	755,403	351,701	13,316	390,386
1999	942,248	430,592	511,656	21,066	72,481	418,109

**Schedule 2**

	2003	2002	2001	2000	1999
Revenues and gains	\$726,791	\$758,577	\$674,729	\$825,813	\$424,861
Expenses	760,176	695,726	782,588	657,627	448,209
Increase (decrease) in unrestricted net assets	(33,385)	62,851	(107,859)	168,186	(23,348)
Changes in income (loss) per examination	(472)				
Changes in restricted net assets			(303,176)	75,561	
Increase (decrease) in net assets	(33,857)	62,851	(411,035)	243,747	(23,348)
Changes in net assets per examination	2,229				
Immaterial variances (rounding)	(16)				
Net Assets at beginning of year	407,219	344,368	755,403	511,656	535,004
<b>Net assets at end of year</b>	<b>\$375,575</b>	<b>\$407,219</b>	<b>\$344,368</b>	<b>\$755,403</b>	<b>\$511,656</b>
Number of gift annuity contracts at end of year	1	1	1	1	3

**AFFILIATED COMPANIES**

MGHF does not have any affiliates.

**MANAGEMENT AND CONTROL**

**Ownership:** MGHF is incorporated under the laws of the state of Washington. It is a nonprofit corporation as described in Section 501(c)(3) of the Internal Revenue Code and is exempt from federal income taxes on related income pursuant to Section 501(a) of the Code. MGHF is organized and operated exclusively for charitable, scientific and educational purposes, for the improvement of health care services generally, by acting for the benefit of Mason General Hospital.

**Board of Directors:** The affairs of the organization are managed by a Board of Directors (BOD). There were 19 board members during 2003. Each member has an equal vote in the election of officers or board members who determine/establish policies of the organization. The BOD established the following Committees: Golf Tournament Committee, Fantasy Forest Committee, Treasures Thrift Store, Endowment Planned Giving Committee, Finance Committee, Executive Committee, Membership Nominating Committee, Community Relations Events Committee, and Prospect Development Committee. These committees have and exercise such authority of the BOD in the management of the corporation as may be delegated by the Board.

Members of the Board serving MGHF as of Fiscal Year 2003 - 2004 are as follows:

Vance Aeschleman	Linda Hoff	Peg Stock
Laurie Buhl	Beth Johnston	Pat Swartos
Karen Burger	Mary Anne Munson	Lorena Valley



Peggy Cleveland  
Lois Gold  
Patricia Heaton  
Karen Hilburn

Tim Sayan  
Laurel Sayers  
Bill Schumacher, M.D.  
Charleen Smith

Dave Whitener, Sr.  
Donna Wolden

**Officers:** The officers of the BOD include the president, vice president, secretary/treasurer, and immediate past president. These officers are elected in January for two-year terms.

**Conflict of Interest:** The BOD of MGHF has a policy to avoid any potential conflict of interest in all fiscal matters for the foundation. If a board member has a conflict of interest in a prospective transaction with the Board, he or she must fully disclose the nature of the conflict and the value of the transaction to the Board and the Development Director. He or she must abstain from voting with the Board on the prospective transaction. In order to reduce the likelihood of conflicts, the Board members sign and return a Conflict of Interest Statement annually. The examination reviewed samples of statements and there were no exceptions noted.

### **CORPORATE RECORDS**

The Board meets twelve times a year, with the January meeting designated as the annual meeting. The minutes of the Board's meetings, for the period January 2003 through April 2004, were reviewed. The minutes of the meetings adequately approved and supported MGHF's transactions and events.

### **STATEMENT OF ACTUARIAL OPINION**

A consulting actuary with Milliman USA, Inc., determined the adequacy of the annuity reserves. In the Statement of Actuarial Opinion, the actuary acknowledges that he is a member of the American Academy of Actuaries and meets the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion. His opinion indicates that MGHF's annuity contract reserves meet the requirements of RCW 48.38.020 applicable to charitable gift annuities.

### **ANNUITY ASSETS CUSTODIAL FUNCTION**

The assets of the separate reserve fund were held and physically segregated from the other assets of MGHF. Total annuity investments as of December 31, 2003 were \$376,426, and consisted of a certificate of deposit, corporate bonds, and mutual funds. Investments were recorded at fair value.

## **SUBSEQUENT EVENTS**

An Order Suspending Certificate of Exemption Number 74 was signed and entered on April 2, 2004 by the OIC. The basis for the order of suspension is due to MGHF's failure to maintain the minimum unrestricted net assets of five hundred thousand dollars which is a violation of RCW 48.38.010(6). (See INSTRUCTION No. 2)

## **ACCOUNTING RECORDS AND PROCEDURES**

MGHF's financial statements are presented on the cash basis of accounting. Using this method, revenue is recognized when collected and expenses are recognized when paid. The primary source of revenue is from Treasures and Treasures Too thrift stores through sales and the Fantasy Forest fundraiser through ticket sales and donations received at the event. All cash receipts are deposited directly to MGHF's bank account.

## **FINANCIAL STATEMENTS**

The following examination financial statements reflect the financial condition of MGHF as determined by this examination.

### **Statement of Financial Position, December 31, 2003**

	<b>Balance Per <u>Annual Report</u></b>	<b><u>Adj.</u></b>	<b><u>Examination Adjustments</u></b>	<b><u>Adjusted Balance</u></b>
<b><u>ASSETS</u></b>				
Current assets	\$162,110		\$0	\$162,110
Investments	559,911	A 1	4,118	564,029
Fixed assets (net)	13,729	A 1	(1,889)	11,840
<b>Total Assets</b>	<b><u>\$735,750</u></b>		<b><u>\$2,229</u></b>	<b><u>\$737,979</u></b>
<b><u>LIABILITIES</u></b>				
Current liabilities	\$10,077		\$0	\$10,077
Long term liabilities – annuity reserves	332,059	A 1	20,268	352,327
<b>Total Liabilities</b>	<b><u>\$342,136</u></b>		<b><u>\$20,268</u></b>	<b><u>\$362,404</u></b>
Unrestricted	\$68,563	A 1	\$256,057	\$324,620
Temporarily restricted	0	A 1	50,955	50,955
Permanently restricted	325,051	A 1	(325,051)	0
<b>Total Net Assets</b>	<b><u>\$393,614</u></b>		<b><u>(\$18,039)</u></b>	<b><u>\$375,575</u></b>
<b>Total Liabilities and Net Assets</b>	<b><u>\$735,750</u></b>		<b><u>\$2,229</u></b>	<b><u>\$737,979</u></b>

## Statement of Financial Activity and Changes in Net Assets, December 31, 2003

	<u>Balance Per Annual Report</u>	<u>Adj</u>	<u>Examination Adjustments</u>	<u>Adjusted Balance</u>
Total revenues	\$639,998	A 1	\$86,793	\$726,791
Total expenses	<u>646,809</u>	A 1	<u>113,367</u>	<u>760,176</u>
Increase (decrease) in net assets	(\$6,811)		(\$26,574)	(\$33,385)
Changes in net assets		A 1	1,741	1,741
Net assets at beginning of year	<u>407,219</u>			<u>407,219</u>
Net assets at end of year	<u><b>\$400,408</b></u>		<u><b>(\$24,833)</b></u>	<u><b>\$375,575</b></u>

### Examination Adjustments

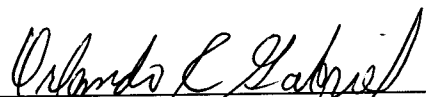
A 1 - To adjust the 2003 Annual Report to agree with the organization's accounting records. The above adjustments recognized the audit adjustments made by the organization's CPA as a result of its audit of MGHF's financial statements for the period ended September 30, 2003. (See INSTRUCTION No. 1)

### **ACKNOWLEDGMENT**

Acknowledgment is hereby made of the cooperation extended to the examiners by the officers of MGHF during the course of this examination.

In addition to the undersigned, Michael V. Jordan, CPA, CFE, MHP, Assistant Chief Examiner, from the Washington State Office of the Insurance Commissioner, participated in the examination and the preparation of this report.

Respectfully submitted,

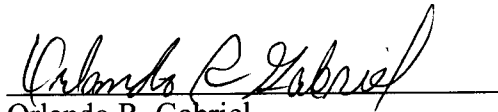
  
\_\_\_\_\_  
Orlando R. Gabriel, Examiner-in-Charge  
State of Washington

**AFFIDAVIT**

STATE OF WASHINGTON}   
 } ss   
 COUNTY OF KING }

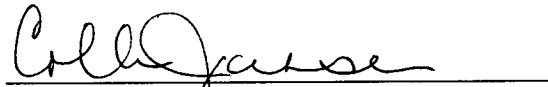
Orlando R. Gabriel, being duly sworn, deposes and says that the foregoing report subscribed by him is true to the best of his knowledge and belief.

He attests that the examination of MGHF was performed in a manner consistent with the standards and procedures required or prescribed by the Washington State Office of the Insurance Commissioner and the National Association of Insurance Commissioners (NAIC).



Orlando R. Gabriel  
Examiner-in-Charge  
State of Washington

Subscribed and sworn to before me on this 22<sup>nd</sup> day of August, 2005.



Notary Public in and for the  
State of Washington,  
Residing at Seattle.

